

Scope of Work for the Severance Tax Working Group

Objective: To align the structure of severance and FML revenue allocation with the needs of the state and of local communities impacted by the mineral industry. The following three efforts are aimed at accomplishing this objective.

I. Evaluation of State, Regional, and Local Impacts from Mineral Development

Goal: Develop a realistic assessment of the severance tax and federal mineral lease (FML) moneys to be provided to local communities, regions, and the state to offset the impacts of oil, gas, and mineral production.

Tasks

- Establish objective criteria for identifying local and regional impacts from mineral development.
- Compile information from public and private studies that have been conducted on the cumulative economic, social, environmental, and other impacts of mineral development and extraction, including county, state, and federal government analyses. (For instance: County Economic Impact Studies, Roan Plateau RMP/EIS, Mesa State Effort, Northern San Juan Basin EIS, DOLA's Energy Impact Needs Survey, Rio Blanco County study - Durango Consultant, others, etc.)
- Interviews/presentations of local government officials and community leaders regarding the economic and social impacts of mineral development through tours of impacted areas. Recommended tours include visits to Garfield, La Plata, Rio Blanco and Weld counties.
- Develop methodology for quantifying the economic, social, environmental and other impacts of mineral development. (Method could be based entirely on existing studies or could include methodology prepared by DOLA/DNR or a private contractor operating on their behalf.)

Outcome - July 23 Meeting

- Present potential methods to quantify the economic and social impacts of mineral development in Colorado.

Outcome - September 13 Meeting

- Present quantified assessment of economic and social impacts resulting from mineral development in Colorado, including information on what is known and not known regarding the impacts.

II. Evaluation of Severance Tax/FML Revenue Collection

Goal: Determine the adequacy of current revenue collection structure and recommend improvements.

Existing Tax Structure

Tasks

- Quantify and outline collections from all sources, including ad valorem property taxes and foregone severance taxes on exempt "stripper wells."
- Collect information on existing severance tax structures in other major producing western states in the Rocky Mountain and Southwestern regions. Information could include state severance tax bases, severance tax rates, frequency of collections, and credits and exemptions available.
- Compare and contrast existing severance tax structure in Colorado to those in other western states.

Outcome - October 10 Meeting

- Prepare recommendations for the Interim Committee regarding the severance tax collection structure in Colorado.

Revenue Volatility and Price Insurance Contracts

Tasks

- Collect information from other major producing western states in the Rocky Mountain and Southwest regions (for at least the current year and a recent historical period--last 5 to 10 years) on revenue collections, volatility of collections, and financial instruments used to protect states against such volatility, including other state's experiences with these instruments.
- Collect information from private providers on the types of financing mechanisms that may be available to the state. These may include price insurance products, bonding opportunities and permanent funds.
- Assess and quantify revenue impact collection, including the impact of changing the collection schedule from quarterly to monthly.

Outcome - October 10 Meeting

- Present recommendations regarding the use of price insurance contracts.
- Present assessment of additional revenue available from monthly tax collection.
- Present recommendations regarding financing mechanisms.

III. Evaluation of Severance Tax/FML Revenue Allocation

Goal: Design a simplified distribution formula that incorporates both severance tax and FML funds.

Tasks

- Assemble data regarding the current geographic collection and distribution of severance tax and FML revenues within Colorado. Identify the leading donor and donee counties and develop a methodology for comparing the sources and distributions of these funds from all sources.
- Collect information on existing severance tax and FML allocation methods in other major producing western states in the Rocky Mountain and Southwestern regions. Information could include types of state services funded with these revenues, existence of permanent trust funds, complexity of allocation mechanisms, and the leveraging of severance and FML revenues.
- Compare how severance tax and FML revenues are distributed in other western states, including the degree to which money is allocated to permanent trust funds.

Outcome - October 10 Meeting

- Present recommendations regarding the allocation of severance tax and FML revenue, incorporating information on the estimated impacts of mineral development and current distribution of all funds.
- Present recommendation of methodology for quantifying current (and projecting future) revenues and impacts from oil and gas extraction activities.